

PPG Industries (NYSE: PPG)

| Intrinsic Value | Current Price | 52 Week High | 52 Week Low | Beta | P/E | Market Cap | Dividend Yield |
|-----------------|---------------|--------------|-------------|------|-------|----------------|----------------|
| \$201.00 | \$182.54 | \$192.23 | \$128.20 | 1.25 | 22.05 | \$25.9 billion | 1.33% |

Industry Trend

The Chemical Coating industry provides paint and sealants for Performance, Industrial, and Architectural companies in both the original equipment market (OEM) and aftermarket. The coating industry has changed over the years as technology continues to allow for more efficient and environmentally friendly coating alternatives. Demand growth in emerging regions such as Asia Pacific, Eastern Europe, and Latin America range from 6-8% per year. The United States, Western Europe, and Japan are more mature and reliant on the health of the economy; in particular housing, transportation, and construction.

Investment Thesis

With a Free Cash Flow yield of 5.87%, Return on Equity of 25%, and consistent stock buybacks and dividend increases, PPG has all the makings of a company focused on increasing value for shareholders. At the current price, the company is trading under fair value and is expected to increase to the \$200 range in 2014. PPG is looking to grow through acquisitions such as Akzo Nobel, a North American Architectural coating company and most recently Hi-Temp; a company specializing in coating steel at high temperatures. These acquisitions and those to come will only continue to strengthen this company and allow for continued competitive advantage and higher margins moving forward.

Business Summary

PPG Industries is a Chemical Coating industry with over 150 facilities in 70 countries. With 30% of its sales coming from Europe, a bounce-back in the Eurozone provides a large upside. The Company is also looking to extend its share in the Asian market which accounts for 17% of total sales already. PPG's ability to diversify their operations to not be reliant on a single revenue stream has allowed for expansion of these activities, as well as the divestiture of operations not conducive to company growth. Innovation, sustainability, and customer service are the three main drivers of PPG's vision to remain the world's leading company in coating and specialty products.

PPG 1 year stock performance vs. S&P 500:



Corporate Responsibility:

| | |
|--------------------------------|---------------------------|
| ESG Disclosure Rating | 38.02 vs. 28.05 (average) |
| Environmental Disclosure Score | 33.33 vs. 25.32 (average) |
| Carbon Disclosure Score | 60.00 vs. 69.75 (average) |
| Social Disclosure Score | 24.56 vs. 25.31 (average) |
| Governance Disclosure Score | 62.50 vs. 54.91 (average) |
| Equal Opportunity Policy | Yes |
| Community Spending | \$415k vs. \$6.23M (avg) |
| Total Energy Consumption | 23.08MWh vs. 15.96MWh |

Competition:

- There are many competitors in each segment of PPG's businesses, both public and private.

Pros:

- Growing by acquisition, and divesting in activities such as the Commodity Chemical business and Transition Optical
- Diverse business model which allows risks to be limited
- Management focused on increasing wealth of shareholders

Cons:

- Sales reliant on health of the economy
- Increases in environmental standards could increase compliance costs
- Rise in costs of materials could be an issue for bottom line

Value Estimate:

\$195 - 204 \$

(2016-2018)

Estimated Real Annual Return:

7% - 12%

Overall Rating:

| | |
|-----------------------|--------|
| Expected inflation | 3% |
| Current EPS | 8.28 |
| Forecasted EPS Growth | 11% |
| Credit Quality | Baa |
| ROE | 25.74% |
| ROA | 19.87% |
| Price/Book | 4.98 |
| Debt/Equity | 61.94% |
| Debt/Capital | 38.25% |
| Current Ratio | 1.86 |
| Price/Cash Flow | 13.21 |
| 10 yr. Risk Free Rate | 2.67% |
| WACC | 10.38% |

Three Stars

Info from Yahoo Finance, Bloomberg, Value Line, and Morningstar as of February 10, 2014

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02/10/2014